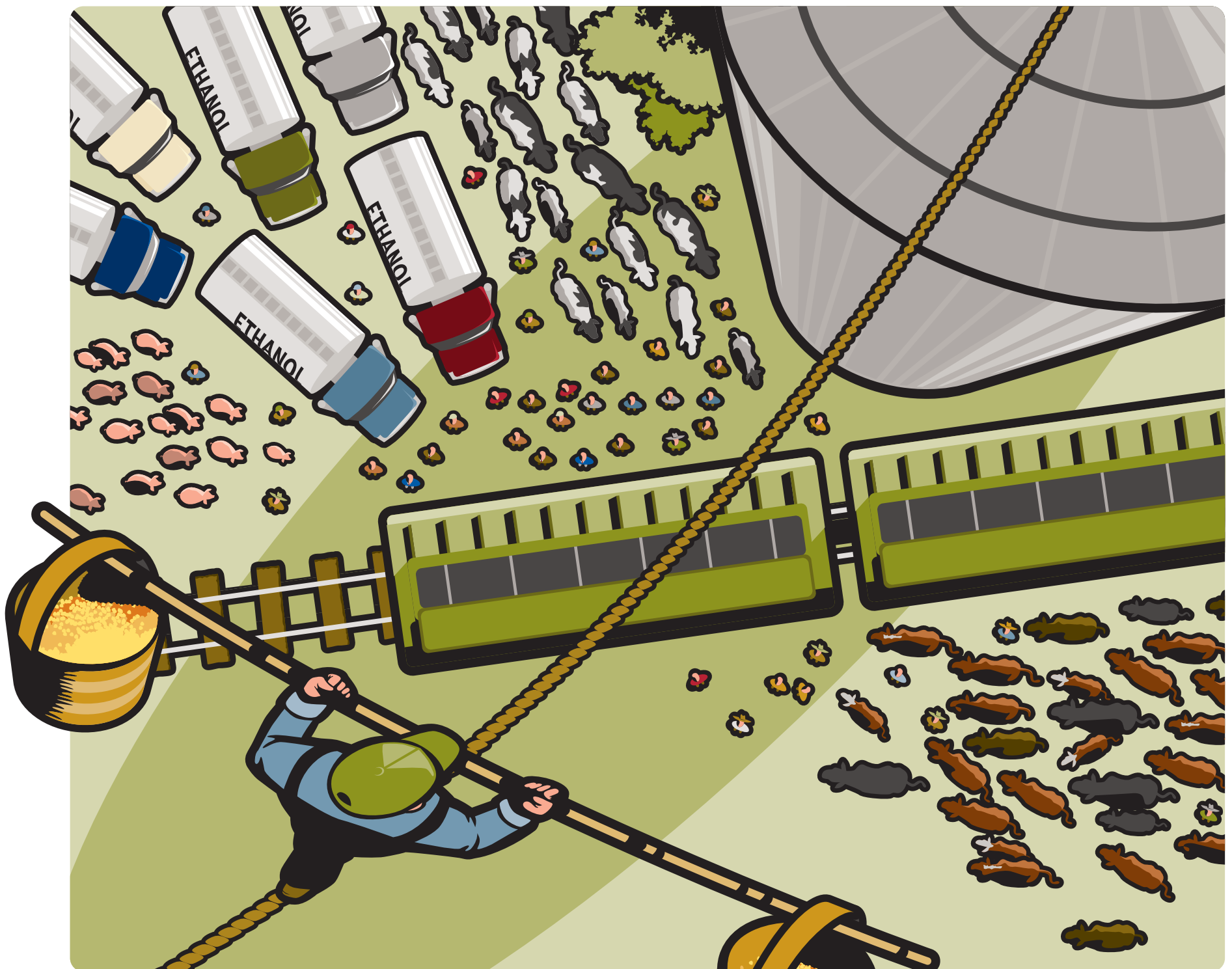


Cornstalk

A Publication of the Nebraska Corn Board

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Striking a balance

It's an interesting dilemma. Many traditional corn users are concerned about the price and future availability of corn. What price is fair for corn producers—and yet acceptable to our customers?

For decades, with only a couple exceptions, the corn balance sheet has been decidedly tipped in the direction of burdensome supplies and corresponding low prices. Also for decades, corn producers have worked hard to develop new markets and uses for corn as a way to better balance supplies and demand and improve prices.

With the demand side of the equation now growing rapidly—due primarily to ethanol expansion—corn producers may finally see the balance sheet change, with supply and demand being more in line and corresponding prices moving up to a level that helps them be more profitable and less reliant on government farm programs.

Rising corn prices, though, bring concern among corn users, who have become reliant on a consistent, cheap supply of corn.

The trick is finding the right balance between production and supply, and acknowledging that there will be some bumps in the road.

“It is hard to figure out what the balance will be,” said Chad Hart, an agricultural economist with the Center for Agriculture & Rural Development (CARD). “It used to be the corn market was really driven by supplies and livestock. Livestock is still the biggest user, but the biggest marginal value right now is ethanol—so ethanol is driving corn prices and the livestock sector is getting pulled along.”

continued on page 2 ►



by Jon Holzfaster, Chairman

There is a growing chorus of people concerned whether the corn industry will produce enough corn to satisfy the food, feed and fuel demands. This is not just a Nebraska issue—it's a national and global issue as well.

Market analysts have talked about higher corn prices for some time now—and corn producers have been hopeful, waiting years for demand to catch up with production. Corn producers, after all, have faced higher input and production costs over the past several years—yet prices have remained stagnant. People shouldn't expect that the transition from 2 billion bushel surpluses to 1 billion or less to be perfect—there will be some volatility. There will be times when markets are tight and there will be times when stocks may rise. Evening out supply and demand takes time, especially as demand is increasing so rapidly.

We should also remember that although corn stocks may be lower, that doesn't mean total available feed supplies are down by the same amount. Distillers grains output from ethanol plants will continue to increase, and that will go to animal feed, replacing some feed corn demand. The Nebraska Corn Board is squarely focused on building coalitions with our partners in the livestock industry, for without them corn and the distillers grains' value will find itself on a slippery slope.

Change is in the air, and when that happens there will be winners and losers, but the mission of the Nebraska Corn Board will stay the same: To build demand for Nebraska corn by adding value—preferably right here in Nebraska with livestock, ethanol and other uses—to help corn producers become profitable and stay viable in this changing environment, and to help our customers/end-users of corn stay viable and profitable—but not at the expense of the corn producer. By doing this we add opportunities to strengthen our ag economy and rural communities, which enhances our education system and adds jobs right here in Nebraska.

Striking a balance *continued from page 1*

"The path of prices is pretty uncertain," said Dick Perrin, an ag economist with the University of Nebraska. Corn prices below \$2.50 may be a thing of the past, he said, unless there is a collapse in petroleum prices—but even that may not affect corn too much. "Even with oil prices around \$40, ethanol plants will keep running," he said.

"There's also a chance for \$4 corn," Perrin said. "That range—\$2.50 to \$4.00—is a big range of volatility for livestock producers."

As a result, some corn users are calling for changes in the farm bill and Conservation Reserve Program (CRP) to allow more acres to be planted.

"From our perspective, a far wiser policy would be to allow the increase in corn acreage to respond to any ethanol-driven price increase," said Dr. Daryll Ray, director of the University of Tennessee's Agricultural Policy Analysis Center. "In addition to bringing in acreage from other crops, such as soybeans, cotton or other grains, rising prices would undoubtedly convince some farmers to convert existing pasture land into crop production when it would be profitable to do so."

"What we're hearing is that high corn prices at harvest provide a tremendous price signal to corn producers for next year. How many acres can we bring in next year? If corn prices stay at \$3, that's a

heck of a strong planting incentive," Hart said.

Ray said only after letting the markets work and bring in more acres for corn production should USDA's CRP renewal and extension rules be slanted to allow the least highly-erodible acreage back into production.

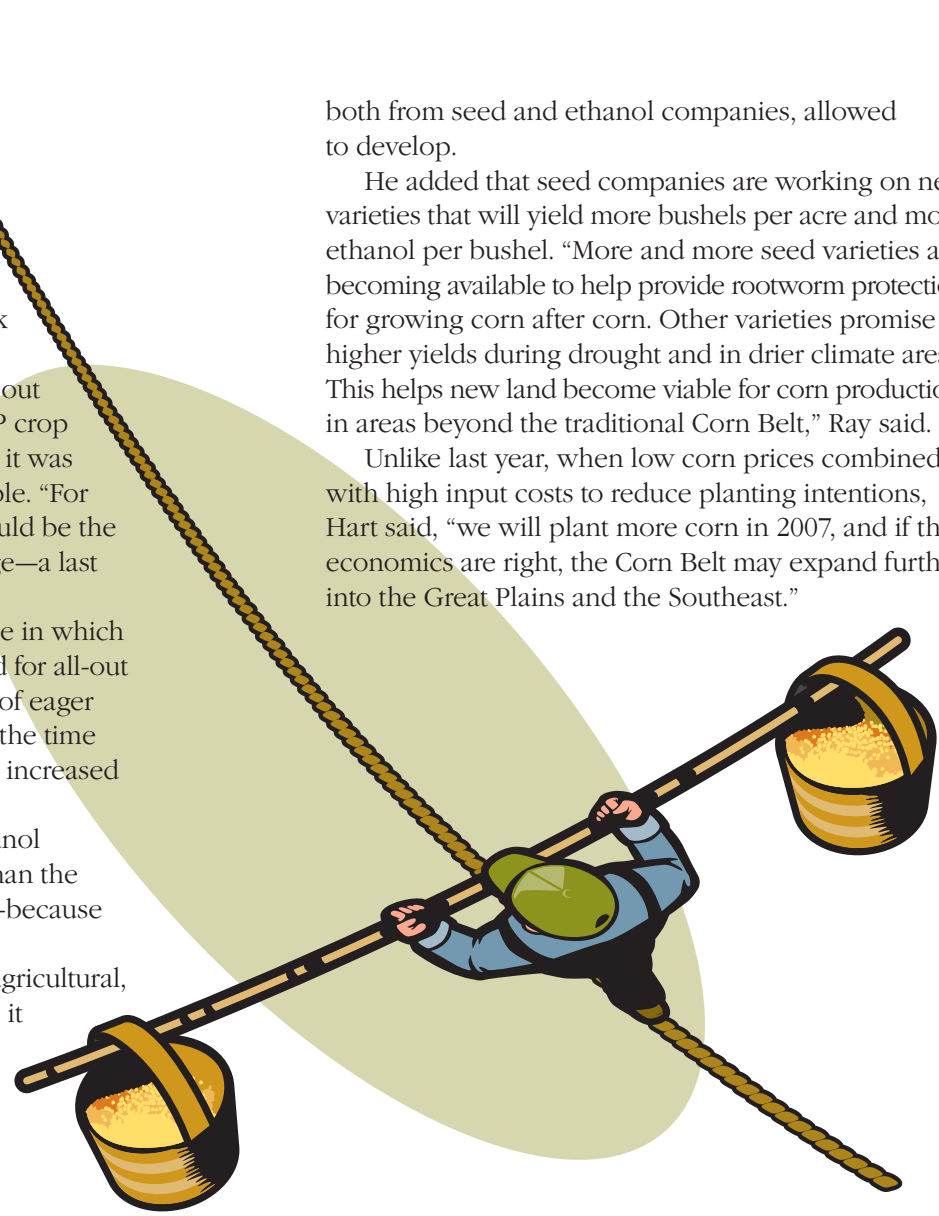
Ray added that a couple of things stand out in a discussion on CRP land. First, most CRP crop acreage is enrolled in the program because it was declared to be erodible, often highly erodible. "For that reason, it would seem that the CRP would be the last place to look for additional crop acreage—a last resort," he said.

Second, he said, "This is not the first time in which a promised land of high prices and the need for all-out production have been dangled in the view of eager farmers; but history has not been kind—by the time full production is achieved the need for the increased output has waned and prices plummet."

In this case, he said, cellulose as an ethanol feedstock is coming—likely much sooner than the 8-10 year timeline expressed early in 2006—because investments in the sector have soared.

"Cellulose comes in many forms, some agricultural, some not. Exuberance is fun, but let's hope it does not get too irrational," he said.

Because of this, Ray said, the markets should be allowed to work and technology,



both from seed and ethanol companies, allowed to develop.

He added that seed companies are working on new varieties that will yield more bushels per acre and more ethanol per bushel. "More and more seed varieties are becoming available to help provide rootworm protection for growing corn after corn. Other varieties promise higher yields during drought and in drier climate areas. This helps new land become viable for corn production in areas beyond the traditional Corn Belt," Ray said.

Unlike last year, when low corn prices combined with high input costs to reduce planting intentions, Hart said, "we will plant more corn in 2007, and if the economics are right, the Corn Belt may expand further into the Great Plains and the Southeast."

Distillers grains can help offset corn prices

Helping to lessen the affect of higher corn prices is the ethanol co-product distillers grains.

"We know there's a positive economic return on feeding wet distillers grains to cattle," said Dr. Darrell Mark, a livestock marketing specialist in the Department of Agricultural Economics at the University of Nebraska. "That positive return is well known among cattle feeders and they will likely continue to take advantage of those returns as the ethanol industry expands production."

That translates to lower feed costs, which Mark said is leading to more cattle on feed in states with ethanol production, including Nebraska. "States like Nebraska, South Dakota and Iowa have the largest year-over-year increases in cattle on feed," he said. "What that says is

corn is cheaper here—plus we've got wet and dry distillers grains."

Early results from a study Mark is involved in indicate extra returns of \$15-30 per head when including distillers grains at 30% of a ration. He and others are working on a model to better predict returns at different feeding levels.

"No state can combine cow-calf operations, cattle on feed and packing plants all in one area like Nebraska," Mark said. "It's really synergistic and a great opportunity. Cattle production in Nebraska is ideally situated."



Co-product feed use to expand:

New ethanol production technologies—in use and under development—will lead to new feed ingredients, including ingredients that can be fed in large quantities to swine and poultry. New technologies separate corn kernels into different parts, allowing ethanol production to become more efficient and co-products to change. Shown here are researchers from Renessen LLC, a joint venture between Cargill and Monsanto, examining a nutrient rich co-product meal that has the potential to replace 100% of the corn in finishing hog diets.



(Photo source: Renessen LLC.)

Long-term Projections Are Optimistic

The National Corn Growers Association (NCGA) predicts corn growers will produce 15 billion bushels to produce 15 billion gallons of ethanol by 2015. NCGA calls it the "15 x 15 x 15 vision".

According to NCGA's Jon Doggett, corn producers will provide enough corn to meet the demands of the bustling ethanol industry and all other markets. "Through increasing corn yields, improved seed technology and overall improved ethanol plant production efficiency—among other things—this vision is very conceivable," said Doggett.

Meanwhile, the vice president of global plant breeding for Monsanto says advances in seed breeding could allow U.S. farmers to double corn yields by

2030, reaching a national average of 300 bushels per acre.

Ted Crosbie believes advances will result from molecular breeding technology, which speeds the rate at which plant researchers can produce new varieties, and new biotech traits in the corn plants themselves. "The first generation was insect and weed control," Crosbie told Reuters news service. "The next generation is about nitrogen use efficiency, water use efficiency, and what we would call intrinsic yield."

"It's a theoretical calculation," Crosbie said. "But if you take the gains that you could see from those various technologies and you project it out, it projects 300 bushel corn."



How many CRP acres are there?

There were approximately 16 million Conservation Reserve Program (CRP) acres set to expire in September 2007, many of which could have come back to production for the 2008 crop year if the U.S. Department of Agriculture didn't re-enroll them.

A year ago, however, USDA began working with producers to either re-enroll their CRP acres for 10 or 15 years or extend the contract between two and five years, depending on the Environmental Benefits Index score of the land. USDA also took applications for new land to be enrolled.

After the enrollment period, USDA reported that it accepted 1 million new CRP acres and that 13 million

acres set to expire in 2007 were either re-enrolled or had their contracts extended. That's about an 84% renewal rate and leaves just 3 million acres to come out.

Chad Hart of the Center for Agriculture & Rural Development said an additional 10.4 million acres of CRP contracts were set to expire in 2008 and 2009, but USDA renewed 5.7 million, leaving 4.7 million to come out during that time frame.

He said overall USDA was "aggressive" in renewing acres.

Approximately 36 million acres are currently enrolled in the CRP. The maximum enrollment allowed is 39.2 million acres.

2007 expiring CRP acreage by major crop*

Crop	Acreage	Crop	Acreage
Barley	289,189	Corn	1,934,847
Cotton	1,457,010	Oats	27,493
Rice	3,797	Sorghum	70,780
Soybeans	2,597,217	Wheat	9,301,772

Note: All but 3 million of these acres were re-enrolled.

*Source: Center for Agriculture & Rural Development.

97 million acres are possible

If corn prices move higher and the market warrants, it may be possible for the U.S. to plant 97 million corn acres without bringing a single new acre into production.

This could happen, said Chad Hart of the Center for Agriculture & Rural Development (CARD), should growers go to a 2/1 rotation—two years of corn followed by one year of soybeans.

If growers in Iowa and Illinois adopted that practice, an additional 3 million corn acres in each state would be planted. The change in Nebraska isn't as dramatic, as the increase would be closer to 400,000 acres, on average.

Although it is unlikely that the practice would be adopted by everyone, the analysis does show that a significant increase in corn acres is possible without changing farm policy, Hart said.

An analysis by CARD showed that the 2/1 rotation could be viable with corn prices in the \$2.70-2.80/bu. range and soybeans at about \$6.00/bu. The analysis included a yield drag for the corn-on-corn year and additional costs.

"These numbers show that the potential is there for the U.S. to reach a 90 million acre corn crop in the near future and that most of the 'new' corn acres most likely are in corn production now," Hart said.

He acknowledged that some corn acres could come from the Great Plains and Southeast, but most will likely come from the traditional Corn Belt.

However, Hart added, the need for additional corn acres depends on a lot of factors, including fuel prices, fuel demand and the demand for corn for feed.

Cheap corn isn't the goal



Secretary Johanns

At a recent renewable energy conference, Agriculture Secretary Mike Johanns said, in reference to corn prices, that the goal of U.S. farm policy can not be cheap corn.

Johanns said farm policies should not "encourage \$1.60" per bushel corn prices. Although he acknowledged that there are two sides to higher corn prices, Johanns said it is not fair to say that cheap corn is good for one industry or another because "somebody is out there raising that corn."

During the conference, Johanns said those that argue the U.S. isn't capable of producing enough corn to meet demand "haven't met the same farmers who I've encountered across America." He said productivity will increase and help meet end users' needs, and cellulosic ethanol production will also come along. In either case, Johanns said, demand lifts corn prices, "and that's good news for our ag community."



The **CORner** Office

by **Don Hutchens,**
Executive Director

I'm somewhat reluctant to even mention this, but January 2007 marks my 20th year with the Nebraska Corn Board. As I look back over these 20 years, I see many things that have changed—and some things that haven't.

Of course, the biggest change has been the tremendous growth of the ethanol industry. The amount of corn used for ethanol nationwide has gone from 271 million bushels to over 2 billion bushels in those 20 years. Another breakthrough has been the use of corn for clothing, carpeting, plastics and other products that help displace foreign petroleum. This is an area that has tremendous potential. Another positive development has been the expansion of U.S. meat exports around the world—from \$800 million to \$4.1 billion in 20 years. We have also seen tremendous changes in corn yields, with overall production now bumping 12 billion bushels. The use of biotechnology has certainly changed the way we farm.

Some things haven't changed much—such as acres planted and harvested (that could take on a new perspective come April and May), prices averaging in the low \$2.00 range (until the last few months), exports (China may change that as well) and in general, strong government support (although there may be change on the horizon here, too).

I have enjoyed my 20 years with the Nebraska Corn Board, and I anticipate the next few years may be the most exciting times we have ever seen in agriculture. I want to thank all those board members I have worked for over the years, and also a most dedicated staff. These folks never forget that we work for Nebraska's corn producers. And I especially thank you, the producer. Your 1/4 of a cent per bushel has generated many returns on investment. I know it doesn't always seem obvious, but when you consider the fact we can find a home for 12 billion bushels of corn each year, you can see how building markets makes a difference.

Kernels of Truth

Harvest tour showed nearly 5% yield reduction

Results of the 11th Annual Corn Harvest Tour, conducted by the Nebraska Corn Board, indicated a 4.7% decrease in yield compared to last year's tour results. The average test weight was 57.2 pounds, down from last year's tour record of 58.8 pounds per bushel.



Over 1 million dollars in grants received

With the approval of two additional grants, the Nebraska Corn Board has now surpassed one million dollars in grants received since being awarded its first grant two years ago. "These grants allow producer's checkoff dollars to be extended further, and also allow us to address key issues within the corn, livestock and ethanol industries," said Don Hutchens, executive director of the Nebraska Corn Board.

Increased beef exports to the Caribbean

Using a grant from the USDA's Emerging Markets Program, the Nebraska Corn Board helped co-sponsor a weeklong workshop in the U.S. for the Chief Veterinary Officers and other animal health officials of several Caribbean countries. The purpose of the presentations and tours was to update the officials on U.S. BSE safeguards and garner loyalty to U.S. beef products in a region that is one of the world's top tourist destinations. In addition to the Nebraska Corn Board, workshop sponsors included the U.S. Meat Export Federation, Nebraska Beef Council, Nebraska Cattlemen and Nebraska Farm Bureau.



David Merrell



Dennis Gengenbach

New directors and officers named

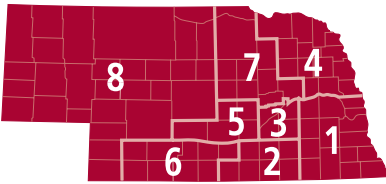
Two new directors have been appointed to the Nebraska Corn Board. The new District 7 director is David Merrell of St. Edward, and Dennis Gengenbach of Smithfield will represent District 6. The Nebraska Corn Board has also elected new officers. Jon Holzfaster of Paxton is chairman, Stan Boehr of Henderson vice-chairman, and Bart Beattie of Sumner secretary-treasurer.

Distillers Grains Market Study Underway

To help identify opportunities and barriers in the feeding of distillers grains, the Nebraska Corn Board is conducting an extensive survey of livestock producers and feeders in Nebraska and eleven other states. The surveys are being mailed to 9,500 livestock operations this month. Kelly Brunkhorst, ag promotion coordinator with the Nebraska Corn Board, said he expects the survey to yield valuable information on livestock producers' attitudes about distillers grains. The project is being conducted in cooperation with the Nebraska and National Agriculture Statistics Service, and is made possible with a \$135,000 grant from the U.S. Department of Agriculture's Federal-State Marketing Improvement Program. Results of the distillers grains survey will be released this summer.



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Nebraska Corn Board members represent the eight districts indicated on the map and are appointed by the Governor. One at-large member is elected by the other Board members.



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A Publication of the Nebraska Corn Board

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Lincoln, Nebraska
Permit #212

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